

RATES - SECTION D1

Fringed and Equalized Costs

In accordance with Section C of the Guidelines, cost data furnished by NFs are adjusted as follows:

- (a) Dietary Adjustments are calculated to determine the fringe benefit value of free and subsidized employee meals. For this purpose, it is assumed that patients eat the equivalent of three employee meals. An average food cost per meal is then developed by dividing total meals into total reported raw food costs. A fringe benefit per meal is imputed to the extent that the average price charged employees for a meal is less than raw food costs per meal. The benefit per meal is then converted into total dollars by multiplying the benefit per meal by the number of employee meals served.

ILLUSTRATION

Patient Days (30,000) x 3 =	90,000
Estimated Meals Served to Employees	<u>30,000</u>
Estimated Total Meals	120,000
Reported Food Costs	\$ 72,000
Food Cost/Meal (72,000/120,000) =	.60
Imputed Fringe Benefit (.60 x 30,000) =	\$ 18,000

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The estimated fringe benefit (\$18,000) is then imputed as

- a fringe benefit
- an expense recovery in the FOOD cost center (as though employees were paying the equivalent of actual food costs for their meals).

(b) Fringe Rates are next calculated for each home. For this purpose, fringe benefits are the total of:

- Fringe benefits reported in the GFRB cost center
- Dietary adjustments per the above calculations.

This total is then divided by total salaries reported in the "Salary" column of Form A, exclusive of amounts reported in the GFRB center itself and amounts reported for contracted nursing services.

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ILLUSTRATION

Total Fringes Reported in GFRB Center	\$78,000
Dietary Adjustments (imputed)	<u>\$18,000</u>
Total Fringe Benefits	96,000
Salaries (excluding contracted personnel)	\$600,000
Fringe Benefit Rate (96,000/600,000) =	16%

(c) Fringe Factors are simply 1.00 plus the fringe rate. In the above example, the NF would have a fringe factor of 1.16.

(d) Compensation of "Fringe Compensation", is the total cost of labor including fringe benefits. It is calculated by multiplying reported salaries by the fringe factor for each NF (except for contracted nursing salaries). The net effect of calculating "compensation" is to allocate fringe benefits to each center in proportion to its reported salaries. No dollars then remain in the GFRB cost center.

ILLUSTRATION

Salaries Reported in Cost Center ABCD	\$50,000
Fringe Factor	1.16
Compensation (\$50,000 x 1.16) =	\$58,000

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(e) Fringed NF Costs are the total costs including fringes applicable to long term intermediate and skilled care patients. For homes with no residential, sheltered, domiciliary, etc., patients, it is the total costs reported in each center plus the applicable fringe benefits. In other words, it is the net amount of:

- Compensation (salaries and fringes), plus
- Fees and other expenses, less
- Recoveries and eliminations (including dietary adjustments).

ILLUSTRATION

(for Cost Center ABCD)

	<u>Reported</u>	<u>Fringed NF Costs</u>
Salaries	\$ 50,000	--
Compensation	--	\$ 58,000
Fees and Other Expenses	10,000	10,000
Recoveries and Eliminations	<u>(8,000)</u>	<u>(8,000)</u>
Net Total	\$ 52,000	\$ 60,000

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For homes with residential, etc., care patients, fringed costs are prorated to "applicable NF patients" in the same proportion reported by the home for the proration of reported actual costs.

ILLUSTRATION

Reported Total Cost Center Costs	\$100,000
Reported Applicable to NF Patients	80,000
% Applicable to NF Patients	80%
Cost Center Costs Including Fringes	110,000
Fringed NF Costs (80% x \$110,000) =	\$ 88,000

- (f) Inflation Factors are developed for NFs with fiscal years ending other than December in order to adjust all costs to December price levels for comparative purposes. (See Section C-3.19 of the Guidelines for the weights and indices used to develop inflation factors).

Inflation factors are used uniformly throughout the State, and they are adjusted for every six-month interval. The inflation factor assigned to each NF is based only upon the number of months between its fiscal year end and December.

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ILLUSTRATION

Inflation Rate Applicable Last Half of 1976	.0065/month
Fiscal Year-End of NF #1	October 31
Number of Months from December	2
Inflation for 2 Months ($2 \times .0065$) =	.0130
Inflation Factor for NF #1 ($1.0000 + .0130$) =	1.0130
Inflation Rate Applicable First Half of 1977	.005/month
Fiscal Year-End of NF #2	March 31
Number of Months from December	3
Inflation for 3 Months ($3 \times .005$)	.0150
Inflation Factor for NF #2 ($1.0000 - .0150$) =	.9850

The costs of NF #2 will be multiplied by .9850 for the purpose of comparing its costs to screens developed at average 1976 price levels (i.e. the average price levels experienced by homes with fiscal years ending December 1976).

At the end of 1977, the costs reported for NF #2 for the fiscal year ending March 31, 1977 will be inflated (assuming positive inflation) to average 1977 price levels for the purposes of establishing the following year's screens. That is, nine months of inflation will be applied to its cost data, but only for the purpose of annually updating screens - not for screening that home's costs.

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(g) Equalized Costs are fringed NF costs (See paragraph (e) above)
adjusted for

- inflation

ILLUSTRATION

NF #2, Center ABCD)

Salaries as Reported	\$50,000
Fringe Factor, per (c) above	1.16
Fringe Compensation, per (d) above	58,000
Equalization Factor, per (g) above	<u>1.10</u>
Equalization Compensation (58,000 x 1.10)	63,800
Reported Fees and Other Expenses	10,000
Less Recoveries and Eliminations	(8,000)
Adjusted Costs	65,000
Inflation Factor	<u>.9850</u>
Equalized Costs (65,000 x .9850) =	<u>\$64,813</u>

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RATES - SECTION D2
NF Rate Summary Schedule
Historical NF Cost - Screened

This Schedule summarizes the build-up of Medicaid per diem rates. The individual rate components are developed on Schedules O through U and carried forward to the Rate-Summary Schedule.

Operating Costs Applicable to All Patients (Lines A-I)

The per diem amounts on Lines A through I are based upon each NF's actual costs or expenditures during the reporting period for which the most recent cost report was submitted, subject to reasonableness limitations as set forth in the Guidelines. The application of these reasonableness tests to each NF is accomplished as indicated on the supporting Schedules O through U.

The per diem amounts for General Services (Line A), Special Patient Care Services (Line G), and Nursing Services (Line N) are based upon actual patient days (but no less than 85 percent of licensed bed days). The per diem amounts for all other cost centers (Lines B through F) are based upon a target occupancy rate of 95% (347 patient days per year per licensed bed).

Capital Facilities Allowance (CFA)

The CFA for buildings and land is based upon appraisals performed by the agent designated by the State, tested for reasonableness as defined in

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the Guidelines (Sections C-3.7, 3.11, and 3.12), and calculated on supporting Schedules P and Q respectively. No actual cost data from a given NF is used in determining its CFA.

The CFA for original equipment (Line L) provides a return to each NF for its original (or "permanent") investment in moveable equipment, assuming a normal or reasonable investment in equipment, as set forth in Section C-3.13 of the Guidelines, and calculated on Line A of supporting Schedule T.

The CFA rates are totalled, compared to the actual per diem for depreciation, interest and rentals, and the lower of these totals is allowed as the property-capital cost per diem.

The per diem amounts are based upon a target occupancy rate of 95%. For Class III NFs with a base period Medicaid occupancy of 80% or greater, per diem amounts are based upon a target occupancy of 90%.

Effective Rates (Lines N-S)

Reasonable per diem base period nursing costs are developed on supporting Schedule R and carried forward to Line N of the Rate Summary Schedule.

This amount plus the total operating costs from Line I are accumulated on Line O. The provision for inflation, which is included in the Line P amount, covers the period from the middle of the reporting period for the last cost report to the middle of the reimbursement period during which the rates are applicable. There is no inflation applicable to CFA components since they are to be frozen at current values.

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Line R contains the Medicaid payment rates.

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